

COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

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BAY STATE GAS COMPANY, )

Petition for Approval to Modify ) D.T.E. 99-\_\_\_\_

Service  
Quality Index  
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**PETITION OF BAY STATE GAS COMPANY FOR APPROVAL**

**TO MODIFY ITS SERVICE QUALITY INDEX**

Bay State Gas Company ("Bay State" or "the Company") hereby petitions the Department of Telecommunications and Energy ("Department") for approval to modify the Service Quality Index ("SQI") that was approved as part of Bay State's two-year rate plan Settlement, D.T.E. 97-97 (1997) and continued by the Department's order approving Bay State's merger with NIPSCO Industries Inc. (now "NiSource"), D.T.E. 98-31 (1998). As grounds for this Petition, the Company states the following:

1. Bay State is a natural gas distributor operating in Massachusetts, and a gas company pursuant to M.G.L. c. 164, § 1. Bay State serves approximately 260,000 customers in Massachusetts.
2. On October 9, 1997, Bay State filed an Offer of Settlement concerning a two-year rate plan, which was approved on December 31, 1997 ("97-97 Order"). The 97-97 Order allowed an increase in base rates to recover safety related investments in mains and services. It also allowed the Company to transfer bad debt expenses associated with purchased gas costs from base rates to the Cost of Gas Adjustment Clause, and to collect through the Distribution Adjustment Cost Clause, also known as the Local Distribution Adjustment Clause ("LDAC") an additional sum for prudently incurred customer choice pilot program expenses. The 97-97 Order approved an earning sharing mechanism, whereby the Company would refund to customers through the LDAC 50 percent of all

earnings between 11.4 percent and 15.4 percent actual return on equity and all earnings in excess of 15.4 percent.

3. The 97-97 Order also approved targets and measures for Service Quality as follows:

(1) Customer survey responses indicating Bay State met or exceeded customer expectations: 94% in FY 1998, and 94.5% in FY 1999;

(2) Service appointments met on the same day scheduled: 94% in FY 1998 and 95% in FY 1999;

(3) Customer complaint cases per 1,000 before the Department for both years (with a no-penalty bandwidth of 10%): No more than 1.4 customer complaint cases per 1,000;

(4) Lost time incidents per 100 employees: Bay State's current 3-year average not exceeding the previous year's 3-year average;

(5) Odor calls responded to in one hour or less for both years: 95%;

(6) Main and service damage incidents due to third parties: current year not exceeding the previous year's 3-year average;

(7) Telephone calls answered within 30 seconds for both years: 95% of emergency and 80% of service and billing; and,

(8) Actual on-cycle meter readings: 88% in FY 1998 and 89% in FY 1999.

D.T.E. 97-97, Order, p. 4.

Under the Settlement, failure to meet any one of the goals carries a maximum penalty of \$250,000 per measure or a total maximum penalty of \$2 million. One-fourth of the maximum penalty for each measure will be assessed for each percentage point or any portion thereof that the Company's performance falls short of the target. The penalty will be applied to the LDAC. Also, the Company will forfeit its 50 percent share of profits

between 11.4 and 15.4 percent return on equity if Bay State fails to any service quality target to the extent that Bay State would incur double the maximum penalty of \$250,000. Id. at 4-5.

The Settlement also required the Company to propose a measure based on the number of mains and service damage incidents caused by third parties, including Bay State's employees and contractors. D.P.U. 97-97, Amended Settlement, p. 4.

4. The two-year SQI plan approved in the D.P.U. 97-97 would expire on October 31, 1999. Id. at 2-3.

5. The Settlement in D.T.E. 97-97 provided specifically that the agreement on SQI measures and all other issues would have no precedential effect. The provision was particularly important in that case because Bay State had no prior experience with SQI regulation and thus was reluctant to put a long-term SQI structure in place. As is the case with all comprehensive settlements, no individual element of a settlement can be deemed reasonable for the purposes of continuing the element beyond the settlement term. A settlement agreement must be viewed as a "package deal". The Settlement in D.T.E. 97-97 contained elements, notably base rate increases and third party cost recovery provisions, that are not present in this case.

6. On March 20, 1998, the Company petitioned for approval of its proposed merger with NiSource which was docketed as D.T.E. 98-31. In that filing, with regard to the Service Quality, the Company stated the following:

As the final major element of the proposed rate plan, upon termination of the approved two-year rate plan, Bay State will propose refinements to the quality of service measures and targets contained in the current rate plan and will consider establishing associated penalties and rewards. The details of the service quality measures, targets, penalties and rewards will be developed after the merger approval, but prior to the expiration of the current rate plan in October 1999.

Pre-filed Direct Testimony of James D. Simpson, p. 18; D.T.E. 98-31

7. In approving the Company's proposed merger with NiSource on November 5, 1998 in D.T.E. 98-31, the Department stated:

To ensure that there will be no reduction in the quality of service following consummation of the merger, the Department directs Bay State to continue to use the current quality of service measures and penalties as approved by the Department in D.T.E. 97-97, until November 1, 2004, the date the Rate Plan ends. When Bay State proposes to

change the current SQI, the Department would review any proposed amendments.

D.T.E. 98-31, Order, pp. 31-32.

8. In this filing, the Company is seeking to modify the current Service Quality measures and penalties approved by the Department in the 97-97 Order and continued by the Department in Order in 98-31 through 2004. Bay State requests that its proposal be implemented January 1, 2000 and end December 31, 2004. Specifically, Bay State is seeking to modify the following service quality measures, explained more fully in the Prefiled Testimony of Marie Walker, attached hereto as Exhibit BSG-1.

a. Measure No. 4, Lost Time Incidents per 100 Employees - Bay State proposed to simplify this target by fixing it at the 3 year average ended September 30, 1998 (instead of the 3 year average ending with the previous year) and to add a 10% no-penalty bandwidth (currently there is no bandwidth) to account for the randomness of lost time incident occurrences and to lessen the impact of a random, unavoidable incident. Bay State also proposes to measure performance based on the current year, rather than the average for the 3 years ending with the year being measured. The purpose of the change is to fix the target at the level it was at the time of the merger, and thus measure any deterioration from that point in time, in accordance with the Department's purpose of imposing SQIs as part of a merger approval;

b. Measure No. 6, Third Party Damage Incidents - Bay State proposes to change the third party damages to mains and services in the current year, which currently cannot exceed prior year's three-year average, to a fixed target based on the ratio for the 3 years ending September 30, 1998, with a 10% bandwidth, of the number of incidents to the number of Dig Safe Tickets. The purpose of the change is to place the number of incidents in context with the level of construction activity in Bay State's service territory. This avoids penalizing the Company for increased incidents that result from increased construction, as opposed to a true degradation in safety;

c. Measure No. 7 Telephone Response Time - The percent of emergency calls and billing/service calls answered would remain the same for emergency calls (95%), but would change to 75% for service and billing calls. In addition, the time in which the calls must be answered would be increased from 30 seconds to 40 seconds. The purpose of the change is to standardize Bay State's measure with the measure used for other Massachusetts gas utilities;

d. Measure No. 1 - Customer Satisfaction Survey Responses - The Company would eliminate the use of customer satisfaction survey responses as a measure but continue to tally the survey responses. Currently, Bay State is the only Massachusetts LDC that uses this measure. Moreover, customer satisfaction is disproportionately represented in Bay State's current SQI because it is also captured in other measures. Also, Bay State seeks flexibility to change the specific format of its customer surveys without being penalized for a result that merely reflects changes in questions or format rather than any

deterioration of customer satisfaction. The changes to the customer satisfaction surveys that are being contemplated by the Company are discussed more fully in Exhibit BSG-1.

9. As explained more fully in Exhibit BSG-1, the proposed changes to Bay State's service quality measures continue to satisfy the objective of ensuring that there will be no reduction in the quality of Bay State's service following its merger with NiSource. See D.T.E. 98-31, Order, p. 31 and n.33 (Nov. 5, 1998). Also, the changes bring Bay State service quality measures more in line with those approved by the Department for other gas companies.

10. Bay State takes the position that penalties are not appropriate for its SQI, especially given that the Department's authority to impose penalties is at currently issue before the Supreme Judicial Court. However, the Department has recently reaffirmed its policy of imposing penalties as a part of a SQI resulting from the approval of a merger. Thus, in this case, Bay State does not propose to eliminate penalties but proposes to modify its SQI by allowing any penalties for performance in any area to be offset by performance above the benchmark in other areas. In addition, Bay State proposes to use penalty funds to improve service in the area where the penalty arose. Bay State's proposal regarding penalties is fully explained in the Prefiled Direct Testimony of David A. Deans, attached hereto as Exhibit BSG-2.

11. Bay State proposes that the modifications detailed herein become effective on January 1, 2000, to correspond with the Company's accounting records and performance tracking, which are now kept on a calendar year basis, and end on December 31, 2004. Bay State proposes that no formal SQI be in place between the end of the current SQI (October 1, 1999) and the start of the proposed SQI (January 1, 2000). The Company will report performance results to the Department during that interim period.

**WHEREFORE**, for the reasons stated herein, Bay State Gas Company respectfully requests that the Department: 1) approve Bay State's proposed modifications to its Service Quality Index; 2) approve the modifications effective January 1, 2000 through December 31, 2004; and, 3) require no formal SQI between October 1, 1999 and January 1, 2000 but continue reporting of results by Bay State during this period.

Respectfully submitted,

**BAY STATE GAS COMPANY**

By its attorneys,

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DATED: August 6, 1999

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